

WATER/WASTEWATER

SUMMARY OF PROPOSED RATE INCREASE*

Water

- 2007: 12% increase
- 2008: 6% increase

Sewer

- 2007: 19% increase
- 2008: 6% increase

} Projected to generate an additional \$4 million in revenue.

Metro Pass-through

- 2007: 9.2% increase
- 2008: no increase

Impact on Average Customer (assuming 7 ccf)

- No changes in the rate structure.

Sample Residential Monthly Bill	2006	2007	Change From Prior Year	2008	Change From Prior Year
City Water (Assuming 7 ccf)	\$19.65	\$22.01	\$2.36	\$23.33	\$1.32
City Sewer	\$9.19	\$10.94	\$1.75	\$11.59	\$0.66
King County Metro	\$25.60	\$27.95	\$2.35	\$27.95	\$0.00
Total Water/Sewer Bill	\$54.44	\$60.89	\$6.45	\$62.87	\$1.98

Regional Bill Comparison

Monthly Residential Bills	Total
Skyway WSD	\$ 78.94
Redmond - UPD (Recommended City Rates)	\$ 77.41
Kirkland	\$ 74.13
Redmond - UPD (Current City Rates)	\$ 73.20
Issaquah	\$ 72.18
Coal Creek Utility District	\$ 69.00
Bellevue	\$ 67.00
Renton	\$ 66.11
Soos Creek WSD	\$ 64.12
Sammamish Plateau WSD	\$ 64.10
Mercer Island	\$ 62.98
Redmond - City (Recommended City Rates)	\$ 60.89
Tukwila	\$ 58.94
Redmond - City (Current City Rates)	\$ 56.79
Auburn	\$ 54.60
Kent	\$ 48.64
Assumptions:	
Meter Size:	3/4"
Monthly Water Consumption:	7 ccf
Monthly Sewer Volume:	7 ccf
Monthly Metro Charge (2007):	\$ 27.95

*Information from FCS Rate Study presented to Council on August 29, 2006

WATER/WASTEWATER

DESCRIPTION OF NEW PROGRAMS

Wellhead Protection Program Engineering Technician (1.0 FTE; \$0)

- Converts supplemental staff position into an FTE to provide ongoing support to the Wellhead Protection Program.
- Funding of \$125,700 provided by reallocating professional services money to salary and benefits within existing budget.

DESCRIPTION OF DEBT PROPOSED

Water/Sewer Capital projects

- Total debt proposed is \$8.6 million: \$4.3 million in 2007 and \$4.2 million in 2008.
 - Term: 10 years
 - Interest rate: 6.25%
 - Debt Service: \$321,416 in 2007 and \$637,080 in 2008
- Addresses capital needs in the City service area which includes well improvements, tank and pump station improvements, trunk sewer improvements, and downtown sewer upsizing.

WATER/WASTEWATER

EXCERPTS FROM THE FCS GROUP RATE STUDY

Purpose of the Study

- Identify financial requirements in the 2007-2008 budget.
- Determine rate impacts projected for 2007-2008 in the City service area.
- Analyze utility fiscal policies & practices.

Overview of Key Utility Financial Elements

- Utility revenues set to fully recover costs.
- City & UPD are separate enterprises.
- Depreciation funding for capital reinvestment.
- Meet financial performance objectives.

Rate Sufficiency & Financial Performance: “Four Tests”

1. Positive Net Operating Income

- Net operating revenues & expenses.
- Excludes debt service & interest earnings.

2. Positive Net Income

- Includes interest earnings on operating & capital funds and debt service interest payments.

3. Positive Cash Flow

- Includes total debt service cost.
- Excludes restricted capital fund interest earnings.

4. Compliance with Bond Coverage Requirements (Assumed 1.25 Minimum Coverage Ratio)

- There are currently no revenue bonds outstanding, but bond issuance is planned for 2007-2008.

City Water Rate Requirements for 2007-2008

Water Rate Increase Options:

A. Upfront increase: 18.5% in 2007.

B. Annual increases (recommended): 12.0% in 2007; 6.0% in 2008.

Primary Drivers For 2007 Water Rate Increase	Rate Impact
Lower Revenue Assumption Based On “Normal” Year Demand (From Analysis Of Long-Term Water Demands)	+ 3.0%
New Debt Service Costs	+ 2.4%
Depreciation Costs	+ 1.9%
Higher Wholesale Water Costs	+ 3.5%
Change In Other Expenses	+ 1.2%
Total	+ 12.0%

Key Water/Sewer Capital Projects

Planned Capital Projects	Projected Cost (\$ Millions)	
	2007	2008
Well Improvements	\$ 5.5	\$ 3.0
Tank & Pump Station Improvements	1.9	1.5
Overlake Trunk Sewer Improvements	1.8	0.3
Downtown Sewer Upsizing	0.2	1.9
Other	1.9	1.8
Total	\$11.3	\$ 8.5

Financing Strategy	2007	2008
Projected Expenditures (\$ Millions)	\$11.3	\$ 8.5
Cash Funding	\$ 7.0	\$ 4.3
Debt Funding	\$ 4.3	\$ 4.2
Total Annual Debt Service	\$ 321,000	\$ 637,000
Total Annual Depreciation Cost	\$2,609,000	\$2,778,000

Note: Assumes a lag in the realization of capital costs – 20% of budgeted expenditures are assumed to occur in the following year.

Proposed Policy Modifications

- Increase minimum operating reserve balance from 45 days to 55 days of operating expenses.
 - Fund from existing fund balance (≈ \$350,000 increase).
 - Helps protect against water revenue risk.
- Adjust depreciation funding policy
 - Current policy: depreciation transfer = depreciation expense.
 - Proposed policy: depreciation transfer = depreciation expense less debt principal repayment.
 - Consistent with financial reporting of profit/loss.
 - Helps offset the rate impacts of new debt.
 - Helps ensure that existing customers do not subsidize growth.

Rate Study (cont.)

City Sewer Rate Requirements for 2007-2008

Sewer Rate Increase Options:

- One-time increase:
 - 26.5% in 2007 (about \$2.44 per month).
- Or annual increases (recommended):
 - 19.0% in 2007
 - 6.0% in 2008

Primary Drivers For 2007 Sewer Rate Increase	Rate Impact
New Debt Service Costs	+ 3.6%
Depreciation Costs	+ 1.9%
Change In Other Expenses	+ 13.5%
Total	+ 19.0%

Additional Significant Factor for Customer Bills:

- KC Metro increase of 9.2% (\$2.35 per month).

City Water & Sewer Service Area: 2007 -2008 Forecasted Performance

Water & Sewer Combined 2007 / 2008 Performance				
	Financial Test #1	Financial Test #2	Financial Test #3	Financial Test #4
	Net Operating Income	Net Income	Net Cash Flow	Coverage
Operating Revenue				
Water Rate Revenue	\$ 18,387,619	\$ 18,387,619	\$ 18,387,619	\$ 18,387,619
City Sewer Rate Revenue	5,425,062	5,425,062	5,425,062	5,425,062
Revenue From Rate Increase	4,052,286	4,052,286	4,052,286	4,052,286
Regional Connection Charges	3,716,109	3,716,109	3,716,109	3,716,109
Metro Revenue	17,481,923	17,481,923	17,481,923	17,481,923
Miscellaneous Revenue	642,952	642,952	642,952	642,952
Total:	\$ 49,705,951	\$ 49,705,951	\$ 49,705,951	\$ 49,705,951
Operating Expenses				
Purchased Water	\$ (7,543,247)	\$ (7,543,247)	\$ (7,543,247)	\$ (7,543,247)
Regional Connection Charges	(3,716,109)	(3,716,109)	(3,716,109)	(3,716,109)
Metro Service	(17,481,923)	(17,481,923)	(17,481,923)	(17,481,923)
Other Operating Expenses	(14,713,457)	(14,713,457)	(14,713,457)	(14,713,457)
Depreciation Expense / Transfer	(5,386,467)	(5,386,467)	(5,127,289)	(N/A)
Total:	\$ (48,841,202)	\$ (48,841,202)	\$ (48,582,024)	\$ (43,454,735)
#1 Net Operating Income	\$ 864,748	\$ 864,748	(N/A)	(N/A)
Non-Operating Revenues (Expenses)				
Interest on Debt		\$ (970,247)	\$ (970,247)	(N/A)
Interest Earned (Fund 401)		341,433	341,433	341,433
Interest Earned (Fund 403)		106,414	-	106,414
Total:		\$ (522,400)	\$ (628,814)	\$ 447,847
#2 Net Income		\$ 342,349	(N/A)	(N/A)
Other Resources (Expenditures)				
Debt Service Principal			\$ (259,179)	(N/A)
Reserve Funding			-	(N/A)
Total:			\$ (259,179)	\$ -
#3 Net Cash Flow			\$ 235,934	(N/A)
Connection Charge Revenue				\$ 2,230,000
Net Revenue Available for Debt				\$ 8,929,063
Total Debt Service				\$ 1,229,426
#4 Coverage Realized				7.26
Calculated Water Rate Increase, per Financial Test #3			18.72%	
Calculated Sewer Rate Increase, per Financial Test #3			26.14%	

Cash flow needs drive the projected rate increases.

Positive cash flow provides additional resources for rate management.

WATER/WASTEWATER OPERATIONS AND MAINTENANCE

REVENUE REPORT

	2005-2006 Budget	2005-2006 Estimate	Over/ (Under)	2007-2008 Budget	Budget to Budget Difference
Beginning Fund Balance	4,246,907	4,750,310	503,403	4,205,017	(41,890)
Water Sales	18,878,973	17,663,746	(1,215,227)	18,387,618	(491,355)
Sewer Sales	5,291,937	5,162,726	(129,211)	5,425,062	133,125
Metro Sales	15,635,376	15,692,687	57,311	17,481,922	1,846,546
RCFC Revenue	1,545,000	3,041,995	1,496,995	3,827,592	2,282,592
Investment Interest	111,065	308,000	196,935	129,300	18,235
Transfer from CIP	0	47,365	47,365	0	0
Miscellaneous Revenues	857,438	1,203,956	346,518	1,010,105	152,667
Revenue from Rate Increase	0	0	0	4,052,286	4,052,286
TOTAL REVENUES	46,566,696	47,870,785	1,304,089	54,518,902	7,952,206

WATER/WASTEWATER OPERATIONS AND MAINTENANCE

EXPENDITURE REPORT

	2005-2006 Budget	2005-2006 Estimate	Over/ (Under)	2007-2008 Budget	Budget to Budget Difference
Salaries and Wages					
Salaries	4,890,627	5,135,378	(244,751)	5,022,951	132,324
Overtime	70,000	60,570	9,430	70,000	0
Supplemental	39,000	55,900	(16,900)	50,000	11,000
Salaries Subtotal	4,999,627	5,251,848	(252,221)	5,142,951	143,324
Benefits					
City Retirement	375,780	393,329	(17,549)	383,573	7,793
State Retirement	72,050	92,847	(20,796)	339,977	267,927
Medical	862,404	920,534	(58,130)	894,008	31,604
Workers' Compensation	88,770	65,389	23,381	110,712	21,942
Benefits Subtotal	1,399,004	1,472,099	(73,095)	1,728,270	329,266
Salaries and Benefits Subtotal	6,398,631	6,723,947	(325,316)	6,871,221	472,590
Supplies					
Water Purchase	6,102,540	6,175,556	(73,016)	7,197,247	1,094,707
RCFC Pass-thru to CWA	1,500,000	2,862,108	(1,362,108)	3,716,109	2,216,109
Other Supplies	1,001,978	931,000	70,978	927,034	(74,944)
Supplies Subtotal	8,604,518	9,968,664	(1,364,146)	11,840,390	3,235,872
Professional Services					
Consulting Services	798,955	665,940	133,015	493,540	(305,415)
Legal Services & Travel	47,000	37,200	9,800	20,500	(26,500)
Communications	114,500	106,925	7,575	121,800	7,300
Travel	41,400	32,800	8,600	35,900	(5,500)
Utilities	325,197	301,480	23,717	325,001	(196)
Repairs & Maintenance	322,218	319,400	2,818	364,000	41,782
Other Services/Charges	508,029	401,097	106,932	625,000	116,971
Prof. Services Subtotal	2,157,299	1,864,842	292,457	1,985,741	(171,558)
Intergovernmental					
Depreciation Transfers to CIP	4,685,755	4,428,389	257,366	5,127,288	441,533
Metro Wastewater Treatment	15,635,376	15,726,694	(91,318)	17,481,923	1,846,547
Excise Taxes/Other	1,012,258	1,016,664	(4,406)	1,545,330	533,072
Intergovernmental Subtotal	21,333,389	21,171,747	161,642	24,154,541	2,821,152
Capital Equipment	216,679	189,100	27,579	218,132	1,453
Debt Service	301,153	305,200	(4,047)	870,934	569,781
Interfund Transfers					
General Fund	1,991,563	1,926,560	65,003	1,952,788	(38,775)
Information Technology	634,879	634,879	0	1,012,344	377,465
Insurance Premiums	201,570	201,570	0	242,244	40,674
Fleet	522,191	522,191	0	693,136	170,945
Other	791	157,068	(156,277)	426,529	425,738
I/F Transfers Subtotal	3,350,994	3,442,268	(91,274)	4,327,041	976,047
Ending Fund Balance	4,204,033	0	0	4,250,902	46,869
Total Expenditures	46,566,696	43,665,768	(1,303,105)	54,518,902	7,952,206